



May 28, 2008

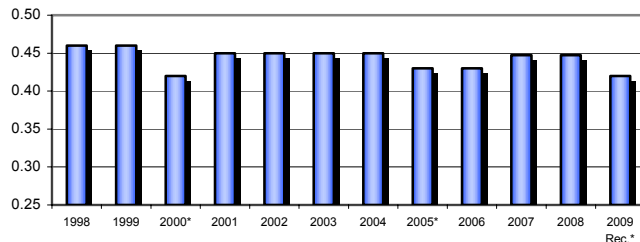
The Honorable J. Scott Padgett, Mayor
 Members of the City Council
 Concord, North Carolina

Dear Mayor Padgett and Members of the City Council:

Pursuant to Section 159-11 of the North Carolina General Statutes, attached is the recommended FY 2008-09 Budget for your review and consideration. I want to thank the Mayor and Council for providing staff with strong direction through the FY 2008-09 Goals Statement. This recommendation provides the resources needed to meet these goals. I also want to thank Deputy Manager Jim Greene, Assistant City Manager Jim Hipp, all department directors and their respective staffs, Finance Director Pam Hinson and, in particular, Budget and Performance Manager Robin Barham and Analyst Lesley Hall for their assistance in preparing this proposal.

The recommended budget for FY 2008-09 totals \$197,968,252 for all City personnel, operations, capital improvements and debt service. Due to the impact of the Cabarrus County property tax revaluation, I am recommending a tax rate of 0.4200 per \$100 of valuation, reflecting a decrease in the actual tax rate of 2.75 cents over the tax rate adopted by City Council for FY 2007-08. In comparison, the estimated revenue neutral rate is 0.3718. As in past years, the proposed tax rate includes restricting the \$.02 budgeted for use in the Transportation Improvement Fund as mandated by City Council.

City Property Tax Rate
 (cents per \$100 valuation; * indicates revaluation year)

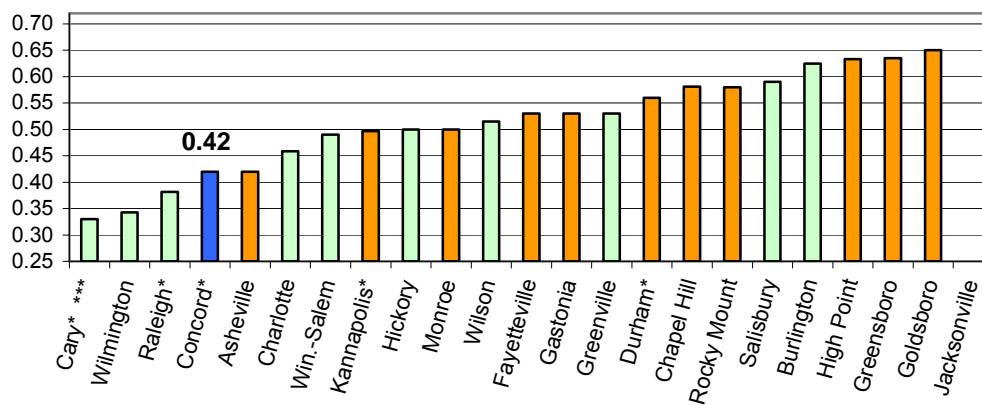


The recommended Concord property tax rate continues to be among the lowest of full-service North Carolina municipalities with populations greater than 30,000. Most of those few cities whose property tax rates are lower than Concord's make extensive use of State authorized impact fees, and/or charge additional funds for solid waste collection and/or disposal. Taking into consideration that none of the above-mentioned factors apply to Concord, the low property tax rate illustrates excellent fiscal responsibility of citizen's tax dollars. However, the ability to maintain such a low tax rate will depend upon the economy and the future growth in revenues. If future sales and/or property tax revenues flatten or even decline, this will greatly impact the ability to maintain this tax rate without significantly impacting the departments delivering General Fund services. The Property Tax Comparison chart on the next page summarizes the proposed property tax rates for comparable cities.

These are challenging times. The economy has slowed down, fuel prices continue to soar, the entire region has experienced a major drought and Concord is faced with the phased closing of the Philip Morris facility. When combined with the impact of the proposed new Cabarrus County and City of Kannapolis property tax levies on future Concord sales tax revenues, these issues have generated the need for budget recommendations that prepare the City for FY 2009-10 along with providing funds for services and projects for FY 2008-09.

Establishing priorities is critical when you combine these revenue challenges with the infrastructure projects committed to meet the needs of a growing community. However, the economy in Concord and the rest of the Charlotte region is stronger than most nationwide, so the challenge could be far greater. The City must be prepared to continue to add the equipment, personnel, and facilities, or expand contracts with the private sector to provide basic municipal services to new residents and to address the needs of those coming to Concord to work, shop or visit. This budget addresses these needs, but we must acknowledge it will be more difficult to project revenues until we know where the economy is heading, the impact of the phased Philip Morris closure and if the drought continues in the region. Fortunately, the City enters into this period in a sound financial position and is ready to meet the uncertainties that may follow.

**FY 2008-09 Recommended Property Tax Rates for
NC Full-Service Cities Over 30,000 Pop.**
(Cents per \$100 Valuation)



* Represents Revaluation Year
 **Cary - extensive use of impact fees.
 *** Cities in green apply a fee for solid waste collection (for some or all services) in addition to property tax
 Charlotte residents are assessed an annual solid waste fee for disposal of \$45 or \$27 (for multi-family) through Mecklenburg Co. tax bills.
 Note that Gastonia and Asheville charge a nominal recycling fee, but not for residential garbage or yard waste.

Cabarrus County has gone through revaluation this year. While there is a recommended decrease in the tax rate, the increase over the revenue neutral tax rate is needed to prepare for the full closure of the Philip Morris facility, the increases in fuel expenses that support general fund services largely delivered to the front yard or front door, the eventual loss in sales tax revenues due to an increase in the tax levies of Cabarrus County and the other municipalities proportional to Concord's and to accommodate infrastructure needs due to growth and expansion in sectors of the City's economy. As in past years we have been conservative in projecting revenues. This is important, particularly with projecting sales tax as there are outside forces that clearly impact receipts. The economy has already reduced the growth in sales tax receipts and could impact them even more if this area moves into a recession. Since this is revaluation year, growth in the tax base and/or tax rates of other Cabarrus local governments relative to Concord's will eventually impact sales tax revenues.

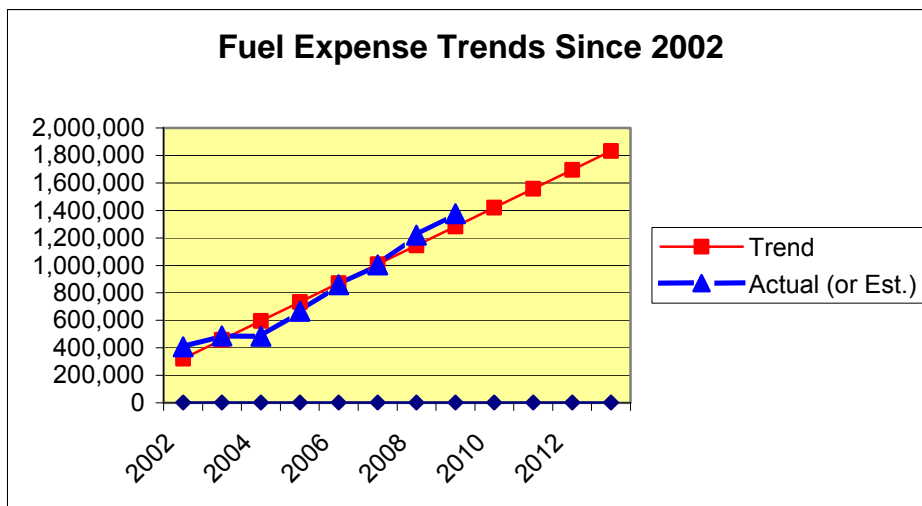
The Mayor and Council have adopted goals that are geared to balancing service delivery city wide to meet basic needs. This budget recommendation addresses the infrastructure and services associated with growth. It also continues the tradition of investment in the center city with capital projects and by allocating additional resources so that the community's growth does not impact the resources supporting the older parts of our City. It is important to note that while this budget addresses the needs for FY 2008-09 and is structured to prepare for needs beyond the new year, the uncertainties of the economy combined with the cost of future capital needs could necessitate changing financial plans in future fiscal years.

Listed below are examples of some of the major expenditure trends that are greatly impacting this year's budget and projections for future budgets.

EXAMPLES OF MAJOR EXPENDITURE TRENDS IMPACTING THE FY 2008-09 BUDGET AND FUTURE FISCAL YEARS

- Continued high costs for fuel due to dramatic price increases within the past 3 years (Recommended budget for fuel is \$1,400,000 compared to \$880,525 spent in FY 05-06). See chart below.
- The impact of these increases in petroleum prices on the cost of asphalt and other transportation materials and on building construction projects. Additional spending on resurfacing is recommended to ensure the City continues to target the same number of street miles annually.
- Combination of rising costs and service area growth leading to a \$440,000 increase in the contracted cost of solid waste refuse and recycling collections.
- Additional funds needed to maintain service levels and to provide services to a growing residential population. (For example, 3 public safety positions in Fire and 1 supervisory position in Yard Waste are recommended due to growth in FY 2009).
- Replacement vehicles and equipment, including 2 large apparatus purchases for the Fire Department.
- Renovation of Fire Station #5 to accommodate the future placement of a ladder truck to serve the southwestern part of the City.
- Streetscape improvements along McCachern Boulevard to encourage private investment and make the streets safer for pedestrians.
- Construction of a skateboard park at a location to be determined within the City.
- Address planning and funding needs for Parks and Recreation facilities in Northwest Concord.
- Purchase price of wholesale electricity increasing at a higher rate than retail sale revenue.
- Purchase of raw water from neighboring communities to supplement Concord’s water supply as the drought continues.

Nationwide there has been a 155% increase in gasoline prices since 2002. However, the increase in petroleum prices impacts more than just City fuel line items. For example, the price of asphalt has soared while the State’s Powell Bill allocation has not kept pace. This means to resurface the same miles of streets as we did four years ago, the City either puts more money into this maintenance fund or falls back on its resurfacing schedule. The new Allied Waste contract for residential garbage collection has increased this cost in excess of \$400,000. While some of that can be attributed to growth, much more is directly related to their costs in delivering this service to the front yard.



Council is aware that we have used fund balance (or retained earnings in the utility funds) over the past fiscal years to balance budgets. Amounts used, however, have not exceeded the reserves necessary to protect the City’s ability to deal with special needs, unforeseen emergency situations, and to maintain (and eventually increase) the City’s bond ratings. The Council’s goal is to maintain a General Fund fund balance target between 30% and 35% of expenditures. Concord has a good record in projecting General Fund revenues. The Council adopted a goal for FY 2007-08 to annually appropriate those dollars in

excess of its General Fund balance goal to a Capital Reserve Fund. This was accomplished earlier in the year so no fund balance is recommended for appropriation in FY 2008-09. These funds will only be used for expenditures supporting capital projects and may be needed if General Fund revenues are required to assist with the payment for new construction and improvements to State roads in the Speedway area. Retained earnings are budgeted to support the Electric and Wastewater Funds, but are at levels that maintain adequate reserves and are targeted for capital needs.

This stability is possible only because our elected officials have been good stewards of the City's revenues in the past. Regardless of its size, over reliance on fund balance in any one fiscal year is a dangerous practice in times of slow growth, particularly if used for ongoing operations. With this diligence, we will continue to avoid the practice of over reliance on fund balance or retained earnings, which would require us to eventually generate ongoing replacement revenue or new sources of funding.

This year we are recommending residential, commercial and industrial water rates increases as indicated on the chart to the right. The projected financial impact of the drought, combined with increases in fuel costs and an average 14% increase in

Water Volume Charges (all rates per 1000 gallons)		
Residential Volume Charges:	Proposed FY09	Approved FY08
<i>Inside City</i>		
Residential – Block 1 (0-7,500 gallons)	\$4.90	\$4.72
Residential – Block 2 (>7,500 gallons)	7.11	6.84
<i>Outside City</i>		
Residential – Block 1 (0-7,500 gallons)	5.89	5.66
Residential – Block 2 (>7,500 gallons)	8.53	8.21
Commercial Volume Charges:		
Commercial	4.69	4.51
Commercial Irrigation – Block 2 (Inside City)	7.11	6.84
Industrial Volume Charges:		
	3.90	3.61
Harrisburg Volume Charge: (capacity per contract)		
	2.74	2.51

chemical costs used to treat water are the major factors increasing operational costs. In addition, capital funds are needed for future waterline projects, including the Stanly County/Albemarle water connection and various water line replacement projects.

If adopted, the increase in the residential rate shown above will result in a \$0.86 cent monthly increase in a residential water bill with a monthly household consumption of 4,800 gallons, which is higher than Concord's current drought average use of 4,100 gallons per month.

In addition to the impact of the drought and covering increased fuel costs, the Wastewater budget includes a number of capital items, including line replacements and

Wastewater Volume Charges		
Uniform Volume Charges:	Proposed FY09	Approved FY08
<i>Uniform Rate</i>		
Inside City Rate (per 1000 gallons)	\$4.86	\$4.64
Outside City Rate (per 1000 gallons)	4.86	4.64
Flat Sewer Charge:		
	32.08	30.62

slip lining projects in older parts of Concord. Funds are also budgeted for upsizing and extension of developer installed lines when there is the opportunity to save ratepayers money by letting new development pay a portion of the cost of future capital needs. This budget also prepares for the issuance of Revenue Bonds (and the associated debt service) for the construction of a major pump station south of NC 49. This pump station and related lines eventually will be paid for by the growth in the area served, however, with the slowdown in the housing market this pay back may be extended beyond what was originally anticipated. Changes in densities and land use could impact this pay back period. This is a challenge as the newer subdivisions generating this need were approved by Cabarrus County.

If adopted, the increase in the residential rate shown above will result in a \$1.06 monthly increase in a residential wastewater bill with a monthly household consumption of 4,800 gallons, which is higher than Concord's current drought average use of 4,100 gallons per month.

Staff is also recommending updating water and sewer connection fees and changing the future calculation of capacity fees by basing the amount on the size of the water meter. Currently all users are charged the same capacity component regardless of future demand. This change will more accurately reflect the capacity needed by the user and will generate amounts consistent with the impact on the respective systems. The revised fee schedule is based on an analysis by an independent rate consultant and is in line with others in the immediate area such as Charlotte/Mecklenburg Utilities and the City of Gastonia.

The City is in the process of finalizing negotiations on a purchased power contract with Duke Power that will be effective January 1, 2009. The volatility of the electric market due to the rising cost of fuel and the environmental debates over the use of coal and/or nuclear energy vs. promoting energy conservation has greatly impacted the negotiations. The new contract will be market driven and the City's costs must prepare for increases to cover its share of Duke's cost to build future generation. The contract will be approved by the Federal Energy Regulatory Commission. At the same time, the Council has a goal to mirror Dukes retail rates, which are regulated by the North Carolina Utility Commission. The wholesale price the City pays has been going up at a faster rate than the retail rates, resulting in a disturbing trend. For example, Duke's rate went up last year in July, which the City matched. They then went back down in January, which the City matched. This resulted in a significant loss in revenues that could have been used to offset the increase in purchased power over last year.

The new contract is designed for those purchasing wholesale power to share the risk and to even allow Duke Power to take advantage of the City's peak generation. There will be a number of uncertainties as we move forward, including a "true up" at the end of each year that could result in a refund from Duke, or in the City paying more.

The projected electric revenues are based on current Duke Power rates. Consistent with Council's adopted policy, we are recommending the rates be adjusted accordingly should the Utility Commission approve a Duke increase. Regardless, purchased power costs will likely be increasing in mid-year due to the new contract while revenues will remain at the Duke levels approved by the Utility Commission.

The good news regarding the electric fund is the City is investing in the system to prepare for future growth and future revenues. In addition to the major 100 KV project that has been underway for several years to ensure system reliability for existing customers, several major projects have been financed and some are already underway. For example, Substation O on Ivey Cline Road, a project exceeding over \$6 million in cost, is nearing completion. This will provide additional capacity in one of the fastest growing areas of the City, including the adjacent wind tunnel. The replacement of Substation L is also nearing completion. This is a project exceeding \$1.3 million in cost. Finally, the City has started the first of three phases on a switchgear conversation. Three of the City's electric substations have critical 15 KV switchgears that are approximately 35 years old and in need of replacement. The project includes retrofitting these substations with an open air switching grid design. Because of the City is making these investments now the integrity of the system is well positioned for the future.

There is no increase recommended in the stormwater fee that was implemented in FY 2005-06 to meet the mandated Phase II stormwater requirements. It is recommended that the fee remain at \$4.30 per Equivalent Residential Unit. As anticipated, revenues in FY 2007-08 will be used for required system mapping, for maintenance projects, to match federal dollars for stream restoration projects and to expand maintenance of the existing system.

The overall budgetary principles on which this document is based are:

- Basic City services are continued with funding at adequate levels.
- Revenue projections are estimated at realistic and conservative levels.
- Any service and facility expansion has been addressed using the Mayor/City Council Goals Statement as a guide.

The budget is presented in a format that groups expenditures into major areas: personnel services, operations, capital outlay, debt service, and non-departmental allocations. This format is consistent with Council's goal of developing a results-oriented budget with performance measures rather than just numbers not tied to specific goals and projects. This is an extension of the Mayor and Council's annual process of formally setting goals to track results. There has been a refinement of many departmental performance measures. Staff is working to meet the objective of only using measures that are meaningful to the elected officials and citizens and which truly reflect value added services. Staff also proposes that Concord continue participation in the North Carolina Local Government Performance Measurement Project as it has proven to assist in benchmarking and performance improvement.

The City Council adopted Fiscal Policies addressing Revenues, Capital Improvements, Accounting, Debt and Reserves. These policies have been updated annually as part of the Mayor/Council Goals and have been addressed in preparation of this budget.

The five-year Capital Improvement Program is updated and presented for your review.

BALANCED BUDGET FOR FY 08-09

Fund	Revenues	Expenditures
General Fund	\$ 66,184,980	\$ 66,184,980
Municipal Service District	75,400	75,400
Home Consortium	410,004	410,004
CDBG	442,930	442,930
Transportation Improvement Fund	2,371,773	2,371,773
\$5 Vehicle Tax Fund (Transit)	252,000	252,000
Stormwater Fund	3,479,800	3,479,800
Electric Fund	64,903,752	64,903,752
Water Fund	19,722,875	19,722,875
Wastewater Fund	15,363,154	15,363,154
Golf Course Fund	2,792,470	2,792,470
Transit Fund	2,278,930	2,278,930
Aviation Fund	15,095,834	15,095,834
Public Housing	1,081,500	1,081,500
Section 8/Vouchers Program	3,512,850	3,512,850
Total Budget	\$197,968,252	\$197,968,252

EXPENDITURE HIGHLIGHTS BY FUND

GENERAL FUND

General Government: This function accounts for \$7,534,203 or 11% of the General Fund budget.

Highlights include:

- *Governing Body* – Continue to lobby for federal funding of priority projects.
- *City Manager's Office* – Continue comprehensive citizen communication plan including joint educational programs with the school system, further implementation of a marketing/branding package, and emphasis on an internal customer service initiative. The new City website will also debut in early FY 2008-09.
- *Finance* – Continue to enhance the P-card (for purchasing) and EFT Vendor payment process to ensure ease of use with both City employees and vendors.
- *Tax* – Continued emphasis on Privilege License collections by the Business License Officer.
- *Human Resources* – Addition of a Training Coordinator position to facilitate staff development and healthy lifestyles for all City co-workers.

- Human Resources – Implementation of initiatives designed to facility employee development and wellness
- Human Resources – Implementation of a web-based tracking system for job applicants.

Public Safety: This function accounts for \$34,549,797 or 52% of the General Fund budget. Highlights include:

- *Police* – Maintenance of the one car per officer plan in the Police Department through 15 replacement vehicles.
- *Police* – Addition of a Police Planner position to assist in succession planning, budget and other analytical projects, obtaining grants, and ensuring policies are up-to-date.
- *Police* – Purchase of 20 Mobile Computer Terminals (or MCT's) to allow officers to work more effectively from the field.
- *Police* – Continue Project Safe Cabarrus utilizing funds from Cabarrus County, Kannapolis, and Concord, as federal funds have expired.
- *Police* – Addition of an Administrative Assistant position to assist in evidence collection and storage.
- *Communications* – Replacement of an outdated Computer-aided Dispatch (CAD) server.
- *Radio Shop* – Facilitate change-out of approximately 25% of City's radios to a digital format in FY 2008-09.
- *Fire and Life Safety* – Funds to renovate and expand Fire Station 5 to accommodate a ladder truck for future growth in the southwest portion of the City - \$1,325,250.
- *Fire and Life Safety* – Purchase of two pieces of equipment: a heavy rescue unit and a front-line pumper to replace existing units that are beyond their useful life.
- *Fire and Life Safety* - Addition of a second Battalion effective September 1, 2008 to effectively oversee the department's 9 stations and 11 crews.
- *Fire and Life Safety* – Expansion of training efforts to increase the number of personnel with USAR and Aviation/ARFF certifications in the department.

Public Works: This function accounts for \$15,054,569 or 23% of the General Fund budget. Highlights include:

- *Transportation* – Additional \$500,000 in funds for street resurfacing (due to soaring costs of materials).
- *Transportation* - Replace and update traffic signals at McGill/Central and Old Charlotte/Office/Swink Streets.
- *Transportation* - Continue guardrail installation/maintenance program and program for rehabilitation of sidewalks.
- *Transportation* – Replace one sign truck in the Traffic Services Division.
- *Transportation* – Equipment to automate production of salt-brine and more effectively distribute it during inclement weather.
- *Transportation* – Funding for prismatic high-intensity retro-reflective sign sheeting for new and replacement signs (in compliance with new federal regulations).
- *Solid Waste and Recycling* – Purchase of one knuckleboom truck and one rear loader truck to replace existing equipment that has surpassed its useful life.
- *Solid Waste and Recycling* – Addition of one supervisory position to assist with customer contact and supervision of the growing number of collection routes (includes purchase of a vehicle and associated supplies/equipment).
- *Solid Waste and Recycling* – Replace 3 service trucks and 1 Dump Truck.
- *Solid Waste and Recycling* – Service changes to bulky waste and white good collection.
- *Solid Waste and Recycling* – Increase of approximately \$440,000 in new contract with Allied Waste for refuse and recycling collection; due largely to rising cost of fuel and the additional \$2 tipping fee per ton being charged by landfills.
- *Solid Waste and Recycling* – Conduct a Joint Recycling Feasibility Study with Cabarrus County on future recycling needs (Cabarrus County to contribute half of \$30,000 projected for the study).
- *Cemeteries* – Resurface cemetery streets using perpetual care funds, if possible. Work includes repaving the roadways at Oakwood Cemetery Road.

Economic and Community Development: This function accounts for \$2,830,411 or 4% of the total General Fund budget. Highlights include:

- *Business and Neighborhood Services* - Provide access to an on-line economic development site search service provided through the Cabarrus County EDC.
- *Economic Development* - Market Concord as a desirable place to do business through the City's Business Website and through print media to stimulate new investment and job creation.
- *Economic Development* - Begin implementation of the Downtown Master Plan, focusing on parking, signage, and private investment.
- *Economic Development* – Continue facilitation and funding for development incentives to new and expanding industries approved by City Council.
- *Economic Development* – Funds for the realignment of Dorland Avenue, as it intersects Cabarrus Avenue, to improve traffic safety - \$157,000.
- *Economic Development* – In partnership with infrastructure departments, begin work on the McCachern Street Streetscape and road improvements including islands, landscaping and a traffic circle.
- *Economic Development* – Continue purchase and/or demolition of property on Cabarrus Avenue to promote beautification and redevelopment opportunities.
- *Development Services* – Conduct a fee study of development review plan and permit fees to assess cost recovery efforts - \$20,000
- *Development Services* - Rewrite Concord Development Ordinance (specifically section on signs) and update Historic Handbook - \$30,000

Cultural and Recreation: This function accounts for \$6,216,000 or 10% of the total General Fund budget. Highlights include:

- Funds for construction of a skateboard park at a site to be determined.
- Set aside Capital Project funds for the purchase of park property and the improvement/expansion of existing parks/greenways as identified in the Livable Community Blue Print.
- Purchase of a replacement 40 passenger Activity Bus for departmental programming and services.
- Improvements to the following facilities: construction of a restroom building at Beverly Hills Park, new boundary netting on athletic fields, refinishing of the gym floor of the Academy Center, a partial roof replacement of the Academy Center, and improvements to the ball fields at Hartsell Park.

Other General Fund Financing Uses and Debt Service

Other Financing Uses: This function accounts for \$6,034,273 of the total General Fund budget. Highlights include:

- Transfer funds from the General Fund to the Transportation Improvement Fund for transportation projects - \$2,066,773.
- Transfer funds from the General Fund for the Rider Transit System - \$298,609.
- Transfer funds from the General Fund to the Aviation Fund to assist with operations - \$300,000.
- Transfer funds from the General Fund to assist with the debt payment for Rocky River Golf Club - \$793,369.
- Transfer funds from the General Fund to the H.O.M.E. Consortium Fund to help support eligible affordable housing activities in Concord - \$45,000.
- Transfer funds from the General Fund to the Parks & Recreation Capital Projects Fund for future land acquisition and projects - \$800,000. This amount is included under the Parks and Recreation budget for FY 2008-09.
- Transfer funds from the General Fund to a project fund for renovation of Fire Station 5 - \$1,325,250. This amount is also included under the Fire and Life Safety budget.

Debt Service and Transfers to First Concord for Debt Service: This function accounts for \$4,574,841 of the total General Fund budget. Highlights include:

- Lease-purchase payments for fire station construction, vehicles, heavy equipment, and fire station furnishings in the General Fund - \$856,997.
- General Obligation bonds for Parks and Recreation projects - \$118,995 and Fire Department projects \$33,955.
- 1998A and 2002B Revenue Bonds for the Alfred M. Brown Operations Center - \$287,911.
- 1998 Variable Rate COPS for Transportation improvements - \$689,168.
- 160A-20 COPS for Fire Department projects - \$358,909.
- 160A-20 COPS for Parks & Recreation - \$397,083.
- 160A-20 COPS for Downtown Parking Facility - \$568,645.
- 160A-20 COPS for Police Headquarters and Communications Radio Shop Improvements - \$1,263,178.

MUNICIPAL SERVICE DISTRICT FUND: The Municipal Service District fund for FY 2008-09 totals \$75,400 compared with \$69,812 for the current, amended FY 2007-08 budget. This fund serves as a pass through agent for the Concord Downtown Development Corporation. After revaluation, the Municipal Service District tax rate is recommended at \$.0.18 (down from 0.21 cents) for FY 2008-09. The revenue neutral rate is estimated to be \$.0.1812.

CDBG FUND / HOME FUND: The CDBG and HOME Funds for FY 2008-09 total \$852,934 compared with \$896,040 for the current, amended FY 2007-08 budget. Highlights include:

- Continue to assist senior citizens and low to moderate-income families with emergency repairs to their homes.
- Build one new single-family home for rental through the Housing Department.
- Encourage homeownership for low to moderate-income buyers through down payment assistance using HOME and ADDI funds from the US Department of Housing and Urban Development.
- Provide funds for the acquisition and/or demolition of properties along Cabarrus Avenue.
- Continue redevelopment efforts in the Logan Community.

TRANSPORTATION IMPROVEMENT FUND: The Transportation Improvement Fund for FY 2008-09 totals \$2,371,773 compared with \$2,202,979 for the current, amended FY 2007-08 budget. Highlights include:

- Continuation of the Pedestrian Improvement Plan including extension of sidewalk infrastructure in high pedestrian travel areas around the City.
- Accumulation of monies from the Transportation Improvement Fund to fund the local match for Derita Road improvements due within the next 3-4 years (up to \$2.1 million).
- Participation in the NCDOT Congestion Mitigation Air Quality projects at Poplar Tent Road/ Highway 29 and Highway 601/Highway 3.
- Funding for Concord's share of the Burrage Road bridge replacement.

SECTION 8 VOUCHER FUND: The Section 8 Voucher Fund for FY 2008-09 totals \$3,512,850 compared with \$3,528,542 for the current, amended FY 2007-08 budget. Highlights include:

- Continue to promote self-sufficiency and achieve HUD's High Performer Status.

\$5 VEHICLE TAX FUND (TRANSIT): The \$5 Vehicle Tax Fund (Transit) for FY 2008-09 totals \$252,000 compared with \$250,000 for the current, amended FY 2007-08 budget. Highlights include:

- Funds are transferred as a pass through agent to the Public Transit Fund.

STORMWATER FUND: The Stormwater Fund budget totals \$3,479,800 for the FY 2008-09 budget year. This represents an increase of 5.6% above the current, amended FY 2007-08 budget of \$3,293,414. Highlights include:

- Addition of one Staff Engineer position to assist with the growing number of plan reviews.
- Begin first phase of a Stormwater Master Plan development (funding in FY08; work to be done on FY09).

- Coordinate with the US Army Corps of Engineers and NC Ecosystem Enhancement Program to implement a stream restoration project within Concord. City funding includes land purchase, a feasibility study and design work on the project.
- Continue stormwater outfall mapping and stream assessment study to meet Phase II stormwater requirements.
- Continue efforts in stormwater education to maintain Phase II permit compliance.
- Installment (financed) purchase of a replacement Street Sweeper vehicle for removing pollutants from roadways.

ELECTRIC FUND: The Electric Fund budget totals \$64,973,162 for the FY 2008-09 budget year compared with the current, amended FY 2007-08 budget of \$61,778,023 (a 5.2% increase). Highlights include:

- Rising costs of purchased power from Duke Energy (estimated at a purchase rate increase of 7% over FY 2007-08).
- Funds for a System Coordination Study (technical analysis) of the entire Electric System.
- Continue tree replacement program, which encourages tree canopy at a lower height, to minimize interference of trees with the reliability of the electric system.
- Continue to improve lighting along major streets and thoroughfares within the City.
- Install capacitors on lines for power factor corrections.
- Provide an upgrade to the underground electric system for Concord's downtown area.
- Funds for the demolition of identified areas at the Kerr Street site - \$105,000.
- Continued phase-in implementation of a mobile GIS workforce so that work orders can be received and completed in the field.

WATER FUND: The Water Fund budget for FY 2008-09 totals \$19,722,875 compared with the current, amended budget of \$22,389,999 for FY 2007-08. Highlights include:

- Protect and comply with Inter-basin Transfer Certificate.
- Complete conversion of 100% of residential water meters to AMR (automated reading) and establish plan for converting large meters to AMR.
- Provide funds for future waterline projects and/or connections - \$605,857.
- Continue security enhancements of water treatments plants and distribution system.
- 14% increase in the costs of chemicals needed for water treatment.
- Increased funding for purchase of raw water - \$1.68 million budgeted.
- Increased efforts in water conservation education and promotion.
- Begin construction of Stanly & Southern Albemarle Waterline Connection upon approval of agreement.

WASTEWATER FUND: The Wastewater Fund budget for FY 2008-09 totals \$15,363,154 compared with the current, amended budget of \$16,052,574 for FY 2007-08. Highlights include:

- Continue to invest in slip lining for wastewater lines.
- Funding of outfall replacements/relocations to the following sites: Hendrick area, Havencrest, and Highland Creek/Elrond Drive.

PUBLIC TRANSIT FUND: The Public Transit budget for FY 2008-09 totals \$2,278,930 compared with \$2,655,284 for the current, amended FY 2007-08 budget. Highlights include:

- Continue funding Concord's share of "Concord Express" and Rider System.
- 17% increase in contract costs for Rider service due to the addition of one new route, the full cost of Saturday service (in prior years, CMAQ funds were used to help fund this service), and rising operational costs passed on by the provider.
- Use of bio-diesel as a fuel source.
- With FTA funding assistance, complete design of and begin construction on a central transit center.

GOLF COURSE FUND: The Golf Course Fund budget totals \$2,792,470 for FY 2008-09 compared with \$2,703,615 for the current, amended FY 2007-08 budget. Highlights include:

- On-course drainage improvements.
- Driving range tee renovations/expansion.

- Utilize the Convention Center's proximity to increase total rounds of golf played annually, providing additional funds to offset debt service.
- Complete minor capital improvement and maintenance projects to upgrade facility that is now over 10 years old.

AVIATION FUND: The Aviation Fund budget for FY 2008-09 totals \$15,095,834 compared with \$12,208,656 for the current, amended FY 2007-08 budget. Highlights include:

- Increase in demand and cost of fuel associated with sales to customers. FY 2008-09 budget is projected at \$8.76 million, compared to \$4.71 million in FY 2007-08. Revenues offset this increase.
- Funds for an Operational and Management Assessment of Airport operations.
- Debt service associated with construction of a new Common Hanger funded in FY08. Once complete, the hangar should begin to generate revenue from signed leases.
- Security enhancements for airport gates and facilities – includes control and monitoring systems - \$50,792.
- Beginning of new 5-year arrangement with Phillips 66 (via Ascent Aviation Group) as the Airport's fuel provider.

PUBLIC HOUSING FUND: The Public Housing Fund for FY 2008-09 totals \$1,081,500 compared with \$1,039,076 for the current, amended FY 2007-08 budget. Highlights include:

- Implementation of the Logan Community Revitalization Plan with support from the neighborhood and guidance from HUD.
- Complete construction of a Technology Center within Public Housing (through HUD grant).

INTERNAL SERVICES FUND: The Internal Service Fund for FY 2008-09 totals \$11,922,561 compared with \$11,489,137 for the current, amended FY 2007-08 budget. These amounts are charged back to user departments and are reflected in each department or fund's recommended budget amount. Highlights include:

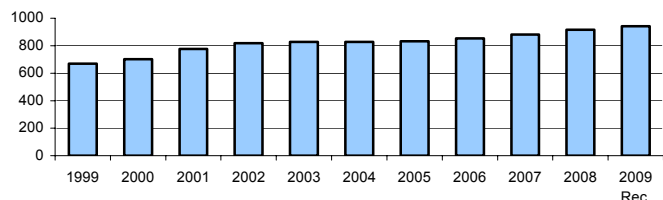
- *Utilities Collections, Call Center & Customer Service* – Unveiling of Harris eCare software, which will allow customers access to their account information and provide the customer with the ability to initiate various service requests.
- *Call Center* – 1 new part-time Customer Service Representative (30 hours per week) to assist with growing number of calls during peak demand and holiday hours.
- *Data Services* – Installation of Northstar upgrade to Utility Billing system and eDocs server, implementation of job application tracking system, and replacement of several City servers.
- *Engineering* – Installation of CADRE Civil 3D software.
- *Fleet* – Increase of \$440,000 in City-wide fuel budget (projected budget of \$1.4 million)
- *Fleet* - Begin use of a remote fueling facility located at the new Fire Station #9.
- *Purchasing* – Addition of a video surveillance camera at the Brown Operations Center.
- *Buildings & Grounds* – Kerr Street Complex Improvements

PERSONNEL HIGHLIGHTS

Personnel expenditures include salaries, FICA, group insurance, retirement, 401K, longevity pay, merit pay, and other miscellaneous benefits for co-workers. Contract, legal, medical, and other outside professional services are no longer included under personnel. They now fall under the Operations category. For FY 2008-09, personnel expenditures account for \$53,833,827 or 27% of the total budget.

This budget recommendation includes funds to provide for performance-based increases for coworkers. Also, our regular survey study identified a need to adjust the overall classification pay structure by 2% in January

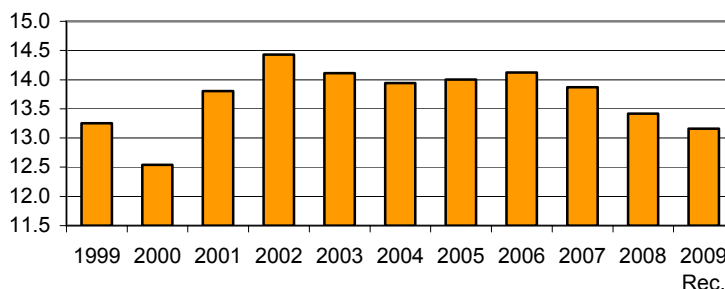
Number of Budgeted Full-Time-Equivalent (FTE) City Employees



2009 and found a few areas where City salaries were even further behind the labor market. Monies are budgeted both to implement the study findings for jobs behind more than the 2%, and adjust pay according to average labor market movement and individual performance. The performance based increases for coworkers during their annual performance reviews are proposed to range from 0 to 6 percent. Money is also included to continue the longevity plan for those hired before July 1, 1996, as well as career development plans.

A total of 942.25 full-time equivalent positions are recommended for funding, including the new positions listed below. Note also that the increase in the number of FTE's is partially due to new positions effective during the middle of the current year, which increased the FTE count when they were made whole for funding in the FY 2008-09 budget year. Included in this total are two positions in Utility Billing, which will no longer be needed in November 2008 as automated meter reading becomes the primary method of gathering data for billing. As these positions are eliminated, the two individuals affected will have the opportunity to apply for other vacant City positions.

**Number of City Employees
Per 1000 Population**



Nine (9) new full-time positions and one (1) part-time position are recommended in this budget. They are as follows (with effective dates):

General Fund (8 positions):

Police:

- 1 – Police Planner (7/1/08)
- 1 – Admin Asst (Evidence) (7/1/08)

Fire & Life Safety:

- 3 – Battalion Chief (9/1/08)

Human Resources:

- 1 – Wellness/Training Coordinator (7/1/08)

Solid Waste and Recycling:

- 1 – Utility Service Supervisor (10/1/08)

Parks and Recreation:

- 1 – Program Supervisor (7/1/08)

Stormwater Fund (1 position):

- 1 – Staff Engineer (7/1/08)

Internal Service Fund (1 part-time position):

- 1 – Customer Service Rep. (30 hrs.)

Coworkers selecting dependent coverage under our main health care plan will not see an increase in premium costs over last year. Employees continue to have the option of selecting this main plan at the lower cost and the City paying the full cost for the individual, or selecting an alternate PPO based plan at a much higher cost for family coverage and the coworker also paying the additional cost for the employee only plan. All plans are self funded and administered by Blue Cross/Blue Shield.

The wellness center for City co-workers is open in its temporary location in the old police headquarters. The permanent location adjacent to the Brown Operations Center is under construction. This center is going well with usage doubling over a six-month period. The service is provided by contracting with CMC-NorthEast Medical Center for a nurse practitioner (or similar level professional) to perform such services as physical examinations, diagnose health problems and treat minor ones, order and interpret diagnostic tests, prescribe medications and provide health information and wellness training. While the clinic is not intended to replace the coworker's primary care physician, we do feel it will help control insurance costs, sustain the health of coworker's, reduce absenteeism and improve productivity.

The budget also includes funds to increase the City's 401(k) contribution for coworkers by one half a percent to 3.5%. By State mandate, the city already contributes 5% to accounts for sworn law enforcement officers. Surveys show Concord contributes less to the accounts of other coworkers than most surrounding local governments and this change will make the City more competitive.

There is one extremely important change related to retiree benefits that must continue to be monitored. The Governmental Accounting Standards Board (GASB) has issued statements governing reporting for state and local government benefits for retirees. The Standards require these benefits to be accounted for over the service of the employee to whom the benefits will become payable. The biggest area of concern is the impact of retiree health benefits. The changes basically require reporting the projected funding necessary to set aside to provide the benefit as it accrues over the working career of coworkers. Unlike with pension benefits, the vast majority of governments, including Concord, have funded these as incurred starting with the retirements and have not tried to fund the actuarial costs of such benefits.

As with other retiree benefits, these health care plans have gone through drastic changes over the years. They started with large private employers with governmental employers jumping in later as the struggle to compete with the salaries and benefits in the private sector became more pronounced. State governments, including North Carolina jumped in next to cover teachers and other employees. At one time, over two-thirds of large private sector companies provided some type of retiree health care. Now about one third of large private sector organizations provide retiree health care. However, nearly 80% of State governments do so and 60% of local governments provide it at some level.

There is no requirement to set aside money to fully fund these benefits on actuarial basis; however, the estimated costs must be noted in financial statements as an unfunded liability. As a result, some point out the possibility of impacting future credit ratings.

It appears right now that most of those warning of the potential deterioration of credit ratings are companies that manage trusts that can be established by local governments to set aside funds dedicated for retiree health purposes. For this reason, we need to be cautious before deciding to fund this on an on-going basis. In fact, Standard and Poor's indicate they do not see immediate impact on credit ratings and a representative of the NC Capital Management Trust is warning Finance Directors to proceed with caution as he anticipates there will be a lot of initial concern, but most will find the financial projections largely overblown. For these reasons, we are recommending that \$100,000 be allocated to go into a State trust fund established for this purpose in order for Concord to be able to participate in the future if it decides to do so. In the meantime, staff will monitor what other local governments are doing in response and evaluate the use of this trust.

MAJOR REVENUE SOURCES

General Fund: The General Fund budget for the 2008-09 fiscal year totals \$66,184,980 compared to the amended budget of \$67,766,994 for FY 2007-08. This is a decrease of \$1,582,014 or 2% less than current amended budget. In fiscal year 2007-08, the City transferred \$3,300,000 to the Capital Reserve Fund for future projects. The current proposed budget does not include a large transfer to the Reserve; thus the proposed total budget numbers are less than the current amended budget. The City has estimated revenues conservatively using information provided by the North Carolina League of Municipalities, historical and statistical trends, and other local factors. Again, this budget was prepared under the assumption that the City of Concord will receive all of its State shared revenues for the 2008-09 fiscal year.

Property Taxes: The budget is balanced with a property tax rate of \$.42 per \$100 valuation. This will yield \$42,527,230 in ad valorem tax revenue based on a collection rate of 98.70%. The tax base used in this budget preparation represents a 27% increase in property values for a total valuation of \$10,333,863,814 (including motor vehicles). One cent on the City's tax rate produces \$1,013,279 in revenue, after the City's estimated collection rate is applied. This rate compares favorably to past City tax rates and is one of the lowest in the state among medium to large size cities.

Sales Taxes: Local sales taxes levied by the City and County comprise 2 ½% of the total 6.75% sales tax paid on retail sales in North Carolina. The local sales tax portion consists of a 1-cent tax that was first levied in 1971, a ½-cent tax levied in 1983, a ½-cent tax levied in 1986 and an additional ½-cent that was levied July 1, 2003. The State of North Carolina collects the sales taxes and distributes them to the local units. Sales taxes are estimated to be \$13,248,000 for fiscal year 2008-09. Sales tax allocations for Cabarrus County are based on proportional property tax levies. The City has projected very little growth in sales tax allocations for FY 2008-09 when compared to FY 2007-08 anticipated collections. No major tax increases were adopted in other jurisdictions located in Cabarrus County in the past fiscal year, but the current economy indicates a slow down in spending. The City continues to apply a conservative approach when estimating this revenue source, as it is difficult to project when the current economy will rebound. The county as a whole continues to experience sales tax growth of around 4%.

Legislation passed during the 2001 session repealed the utility franchise tax on telephone companies and replaced it with a sales tax on telecommunications of 6% of gross receipts. The estimated telecommunications sales tax included for FY 2008-09 is \$570,000.

Utility Franchise Tax: As of July 1, 1999, each city's share of the utility franchise fee is based on actual receipts from companies that furnish electricity. These funds are collected by the State and are distributed to the City of Concord based on the actual receipts from the providers for services provided within the city limits. This revenue source is expected to be \$2,000,000 for FY 2008-09.

Powell Bill Street Allocation: These funds represent redistribution by the State of a portion of the motor fuels taxes collected. The use of these funds is restricted to maintaining, repairing, constructing, reconstructing or widening any public street or thoroughfare within the City limits. Bridges, drainage, curb and gutter and other necessary appurtenances are also approved uses of these funds. One-quarter of distribution is based on the number of miles of local streets in the City and the remainder is distributed on a population basis. These funds are expected to provide \$2,140,000 for FY 2008-09.

Privilege License Taxes: Each business activity operating within the City limits is required to purchase a privilege license to conduct such business. These taxes are a revenue measure provided to cities by the North Carolina General Statutes. Staff recommends continuing a gross receipts basis for our privilege license ordinance. A total of \$1,000,000 in revenues has been estimated in this budget.

Fund Balance: The City's undesignated General Fund balance was \$25,175,793 as of June 30, 2007. This number was calculated before funds were transferred to the General Capital Reserve in FY2007-08. It is anticipated that we will meet our target goal of a 30-35% minimum General Fund undesignated fund balance at June 30, 2008. Our ability to maintain a healthy fund balance in previous fiscal years is attributable to the continued economic vibrancy present in the City of Concord and increases in available cash for investments, collection percentage of property taxes, and conservative estimates on revenues. The recommended budget does not appropriate any funds from General Fund balance. In FY2007-08 the City created a General Fund Reserve to begin preparing for future projects. Although these reserves now reside in a fund other than the General Fund, and are no longer included in the City's General Fund Balance, the amounts are still available for projects designated by the City Council.

Special Revenue Funds: The Concord Downtown Development Corporation has requested that the Municipal Service District tax be reduced from the current level of \$.21 per \$100 assessed valuation to \$0.18. This reduction occurs due to the revaluation of property in the Municipal Service District. Also, included in the Special Revenue Fund is the budget request for Community Development Block Grant Funds, the H.O.M.E. Program, the Transportation Improvement Fund, the \$5 Vehicle Tax fund (Transit), and the Section 8 Housing Vouchers program. The special revenue funds total \$7,064,957.

Enterprise Funds: Stormwater, Electric, Water and Wastewater rates and charges will generate \$103,469,581 in revenues.

Stormwater: The Stormwater Fund is comprised of \$3,261,100 in operating revenue and \$18,700 in non-operating revenue. This will be the third full fiscal year of operations for the Stormwater Fee. No rate or fee increases are proposed for the Stormwater program.

Electric Fund: The Electric Fund is comprised of \$62,918,565 in operating revenues and \$494,000 in non-operating revenues, with an appropriation of \$841,187 from retained earnings. Electric revenues are estimated using the current rates for similar customer classes as currently charged by Duke Power. The proposed budgeted revenue includes a 4% growth in rate-generated revenues when compared to current year estimates. The revenue projection does not include actual anticipated rate increases unless Duke's current request for a fuel adjustment increase is approved.

Water Fund: The Water Fund is comprised of \$19,143,275 in operating revenue, non-operating revenue of \$579,600, and no appropriation from retained earnings. Water revenues are estimated using a 2% growth in consumption. An increase in water rates is recommended as reflected in the Schedule of Fees and Charges effective July 1, 2008. A rate increase is recommended to fund increased fuel costs, increased chemical costs associated with current drought conditions, and increased maintenance and capital needs.

Wastewater Funds: The Wastewater Fund is comprised of operating revenue of \$14,140,596, non-operating revenues of \$152,500, and an appropriation of \$1,070,058 from retained earnings. Wastewater revenues are estimated using a 2% growth in consumption. An increase in wastewater rates is recommended as reflected in the Schedule of Fees and Charges effective July 1, 2008. A rate increase is recommended due to an increase in maintenance, fuel and capital needs.

Public Transit: The Public Transit budget is comprised of \$200,000 in operating revenue, \$1,530,321 in restricted intergovernmental revenue, and transfers of \$548,609. In FY 2008-09, Concord's General Fund contribution to the Transit system is \$298,609. No fare increases are proposed for the Transit System.

Golf Course: The Golf Course Fund anticipates increases in earned revenue budgeted in FY 2007-08 of just over 4% when compared to the proposed budget. The additional rounds played and the additional business at the golf course results in the estimated increase in budget. Total revenues are estimated at \$1,965,366 from operations and an additional transfer from the General Fund of \$793,369 designated toward debt service.

Aviation: The Aviation budget is comprised of \$13,870,834 in operating revenue, a transfer of \$1,000,000 from the Electric Fund and a transfer of \$300,000 for the General Fund. No fee increases are proposed for Aviation.

Internal Services Fund: The Internal Services Fund – comprised of Data Services, Customer Service, Utilities Collections, Billing, Engineering, Fleet Services, Call Center, Buildings and Grounds and Purchasing – totals \$11,922,561 or an increase of 4% over the current year budget. Increased fuel costs (budgeted in Fleet Services) and new personnel account for the small increase. All costs within this fund are allocated among the Electric, Water, Wastewater, Stormwater, Aviation and General Funds based on percentages derived from a cost allocation method.

All rates, fees, and charges are listed in the Schedule of Fees and Charges.

KEY CHALLENGES FOR FY 2008-09 and BEYOND

This budget recommendation is based on a number of assumptions. The uncertainties of the economy, the impact of the phased closure of Philip Morris, the timing of the Speedway area infrastructure projects, the drought, etc. are just a few of the challenges that will impact future revenues, and future budgets. We feel comfortable about FY 2008-09 and that this budget does a good job in preparing to meet these uncertainties. Though they have been taken into consideration with this budget recommendation, here are some of the challenges that could further change revenue and/or expenditure trends.

2008 CABARRUS COUNTY PROPERTY REVALUATION

Cabarrus County has adopted a schedule calling for the general reappraisal of real property once every four years. Once the revaluation takes place and the tax rate is set in conjunction with the next budget, state law requires that units of local government publish a revenue-neutral tax rate in the budget. The purpose of the revenue-neutral tax rate is to provide citizens with comparative information.

The FY 2008-09 operating budget is the first following the general reappraisal of all real property in Cabarrus County. The revenue-neutral tax rate, as defined by G.S. 159-11(e) is the rate that is estimated to produce revenue for the next fiscal year equal to the revenue for the current fiscal year if no reappraisal had occurred. The rate is then adjusted by a growth factor equal to the average annual percentage increase in the tax base due to improvements since the last general revaluation.

The reappraisal produced a tax base of \$10,338,864,000 for Concord. Using the formula mandated by state law, the revenue-neutral tax rate for Concord is .3718.

The revaluation reflects the strong growth in Concord and the increasing value of those with property in the City. Even with the economic turndown, this area has shown much more resilience in maintaining property values than other regions in the country. Another positive is the revaluation has also enabled management to recommend that Concord lower its tax rate. However, we must always remember the relationship between the tax levies of the local governments in Cabarrus County to sales tax receipts. For example, Cabarrus County has projected keeping its current tax rate, largely due to school needs. If enacted, this will impact Concord's sales tax revenues starting in FY 2009-10 as much as an amount equivalent to 1 cent on the tax rate. With the Research Campus developing quickly in Kannapolis, their tax rate and tax levy will also impact Concord's future sales tax distribution.

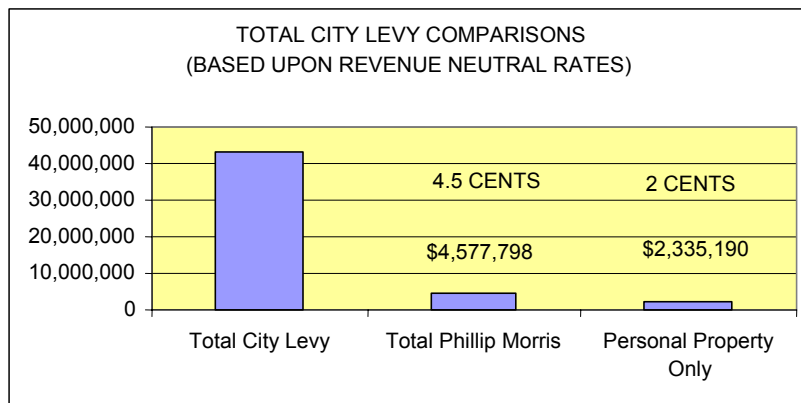
Sales tax in Cabarrus County is distributed based on the proportional property tax levy method, whereby sales tax distributions are made according to what percentage each jurisdiction comprises of the total property tax levy "pie" that includes all local government entities in the county. When increases in property taxes and/or the tax base take place in other Cabarrus County local governments, this impacts Concord's sales tax receipts. Cabarrus County benefits from all the growth in the County and has a higher tax rate, so when growth occurs in another municipality, Concord's sales tax portion can decline in relation to both the County and the growing municipal areas. On the other hand, Concord gets its portion of the sales tax spent in other parts of the County. In a county with a changing tax levy, it becomes critical that we evaluate the tax base and tax rates of all the other jurisdictions every year to make sure we are accurate in our sales tax projections. Clearly our economies and our revenues are interdependent.

THE PHASED CLOSING OF PHILIP MORRIS

In late June of 2007, Philip Morris announced it would cease operating its manufacturing facility in Concord by the end of 2010. While the budget for FY 2007-2008 was already adopted, the City reevaluated major projects and held off on financing any general fund capital projects or equipment with the exception of Fire Station #9. The funds initially allocated for the deferred projects were used to pay cash for some needed capital expenses.

The challenge in front of us is preparing for the loss of this revenue. Obviously the advantage of Philip Morris's advanced announcement is it gives us time to prepare for this loss. As a result, the tax rate recommended takes into account the projected minimum \$2.4 million loss in property tax revenues alone once operations are fully relocated. Depending upon their stand on the value of the existing buildings there could be a company effort to argue the taxable values should be further decreased. The water and wastewater fund will also see revenue losses due to the closing, though proportionally they will not impact those funds as much as it does the general fund. The chart below illustrates the worse case scenario as well as what is anticipated when Phillip Morris is no longer a part of the City's assessed values.

There are some bright sides to this otherwise significant economic blow. First of all if this took place eight years ago before our local economy had diversified as much as it has, this would have been totally devastating to the City budget. Second, the eventual sale of the property will open up a wonderful economic development opportunity for Concord as there is likely no other tract of that size this close to downtown Charlotte that has so much vacant land and the infrastructure amenities of this site.



PETROLEUM PRICES

Petroleum prices continue to rise and at the drafting of this document, retail prices are in excess of \$3.60 per gallon with many predicting them to approach \$4.00 per gallon. This has a great impact on an organization whose service structure is largely based on sending vehicles and equipment into neighborhoods on a daily basis. Basic municipal services such as police, fire, transportation, solid waste, water, wastewater, electric, stormwater, airport, buildings and grounds maintenance and parks and recreation are all dependant upon heavy use of fuel. The City has worked hard to become more efficient and this past year was highlighted in a League of Municipalities publication for our efforts in fuel efficiency. Despite these efforts, our costs continue to rise directly through our fuel purchases, and indirectly through the increase in our contracted services and the price of construction materials such as asphalt.

THE DROUGHT AND THE DEVELOPMENT OF NEW WATER SOURCES

Starting in September of 2007, the water restrictions enacted due to the statewide drought began impacting water and wastewater revenues. Our staff immediately went into action and started purchasing more water from others and delaying planned projects to try to keep the budget in balance. Keeping the budget balance was a challenge as water sells decreased at the same time that expenditures increased due to purchased water. Also, the increases in the cost of fuel and other materials such as copper have raised costs. The staff did a great job juggling revenues and expenditures and prevented the need for a mid-year adjustment to rates.

One reason why Concord was able to avoid this were the changes made in the rate structure back in 2002 to switch from a system based on volume sales to one based on conservation. The higher rates inherent in a tiered system impact revenues immediately, but since Concord has been using this system for over five years, we have been able to adjust to accommodate drought situations. From a public education standpoint, Concord has benefited from the Catawba River local governments adherence to the Catawba Low Inflow Protocol guidelines. Unlike the previous drought, we actually have had other communities in the region taking steps to conserve water along with Concord and Kannapolis. Hopefully, more of the other regional local governments will also adopt conservation pricing structures rather than continuing to rely on the "Wal-Mart" style of selling volumes at very low prices. Our residents continue to respond to restrictions and have a high level of conservation, resulting in low average monthly household usage.

Concord continues to negotiate with potential partners such as the City of Albemarle, the City of Salisbury and Charlotte/Mecklenburg Utilities to arrange to purchase treated water in compliance with the Concord/Kannapolis Interbasin Transfer Certificate. This budget anticipates major projects that will be

financed starting this fiscal year and carrying on into FY 2009-2010 and beyond. Obviously, obtaining water capacity from other systems will not be cheap. Water rate increases have to be evaluated annually against the amounts needed for the debt payments associated with the projects and to meet increasing environmental standards. It is likely upfront capacity purchases and related financing will have to take place with Concord's wholesale customers participating based on their desired capacities. It is a reality that Cabarrus County has no additional water sources within its boundaries and we must go outside to obtain water. As a result, water continues to be more expensive in Cabarrus County than it is for its neighbors that are adjacent to free water sources fed by larger rivers.

GROWTH MANAGEMENT

Growth management continues to be one of the biggest challenges facing Concord and is a highly charged issue Countywide. Past budget messages have documented the impact of decisions made several years ago that extended infrastructure and built schools in the northwest section of the County, opening up a large area to residential growth. Concord was forced to adopt a reactionary mode and countered with measures to ensure higher quality infrastructure and amenities within its growth area. Since then, Cabarrus local governments have come a long way in trying to control housing densities and requiring higher development standards in rural areas.

The challenge in growth management is directing development to areas where there have been investments in infrastructure and areas where the density can support municipal services, such as in the northwest, while discouraging growth in areas that do not. In the Fall of 2007, Concord and Cabarrus County agreed to amend its legal settlement agreement to prevent the approval of major subdivisions for eight months in an area to the east and south of Concord. The idea was to develop a plan that would discourage development at suburban densities for at least five to ten years to promote in-fill development where infrastructure already exists. Consultants have been hired, an advisory committee established and public meetings are being held to gain input for a proposed strategy. This could result in a permanent change to the wording of this settlement agreement.

However, this effort points out the complexities of growth management vs. the realities of financing infrastructure. In one part of the study area, Cabarrus County has already approved residential developments causing Concord to have to construct a sewer system to serve the area. Concord designed the system to eliminate to minimize the use of pump stations for environmental reasons. However, the development has to occur to support this infrastructure or existing customers will have to subsidize this project. The slowdown in the housing market has already impacted the timing of the payback, so further changes in land use policy could have a detrimental impact on the project if Cabarrus County does not take municipal infrastructure costs into consideration when making land use decisions.

NEW PURCHASED POWER (ELECTRIC) CONTRACT

As noted earlier, we are entering a new day in regard to the financial structure of our electric system. The City has continued to invest in this system to be positioned for future growth and new customers, and to continue provide extremely reliable power to our existing customers. At the same time, alternative fuels and energy conservation has also become a focus.

This year the City will enter into a new purchased power contract with Duke Energy that will take effect in 2009. This new contract will be totally different and will be highly dependent upon the market and the pricing more susceptible to the risks inherent in a more controversial environment due to debate over the source(s) of new power. Costs will be tied to Duke's and will go up as they seek to develop new sources of generation. It will also somewhat diminish the City's ability to save money by shaving peak usage, while allowing Duke access to use the City's peak shaving resources on a defined basis.

Beyond the new structure, and additional challenge is our costs are dictated the contract with Duke Energy, which will have to be approved by the Federal Energy Regulatory Commission. Revenues, however, are tied by Council policy to Duke rates, which are controlled by the North Carolina Utilities Commission. Over the past few years, wholesale costs have risen than the retail rate increases granted by the Commission. The Commission has been reluctant to give Duke upfront credit for the research and

development of new generation sources, while the wholesale costs have gone up to cover these costs. Obviously this trend is disturbing. It is thought that the retail side will have to catch up eventually, but this has turned into a politically charged process with environmental and consumer groups both getting involved to challenge Duke efforts.

AIRPORT DEVELOPMENT

Concord Regional Airport continues to be an important catalyst for business development in the region. The City has certainly recognized its importance for years and has invested money to seed additional economic development. Cabarrus County and Kannapolis also benefit greatly from this amenity. The City continues to invest to meet current demand for space and to plan for the future. To remain competitive and keep the airport safe and well maintained, the City has committed to a number of projects requiring use of pay-as-you-go and debt financing. This necessitates continued support from both the General Fund and the Electric Fund. The money that the Concord City Council has put into Airport development has certainly been expensive, but worthwhile and beneficial both to the City and to the regional economy. It continues to spur economic development of all types, but particularly those related to the motorsports industry.

As noted earlier, the increase in petroleum costs has certainly impacted aviation. There is a decline in recreational flying, resulting in a decrease in the purchase of AV Gas. On the jet fuel side the increase in cost has made the market much more competitive, resulting in lower revenue margins. This has greatly impacted revenues during a time when there are many capital projects on the plate.

Projects include the completion of the extension of the North taxiway to provide access to property for future hangar development, construction of a hangar-in-common to accommodate current hangar needs, filling and grading property adjacent to the south taxiway for future development, financing the recent land acquisition on the I-85 side of the airport and paying for air rights needed on the north side of the property. Future projects will include overlaying the runway and exploring expanding parking and terminal building facilities.

NEW SOLID WASTE CONTRACT

Staff has negotiated a new contract with Allied Waste to begin the new fiscal year. If Council accepts this contract, it will continue the current methods of providing these services. The new contract will be close to \$500,000 more than the FY 2007-08 amounts. Obviously some of this increase reflects the higher cost of fuel, growth in households and other Allied price adjustments.

Staff has recommended we go to a shorter contract period to prepare for changes in the future and bring in a third party well before the next contract is up for consideration to help us look at the different solid waste services and how they are delivered. With changes in technology and additional mandates on separation of waste, it is time to look at all services provided from a global view and irrespective of the current provider. Because residential garbage collection is contracted out and the rest of the residential services are in-house, Concord has one of the most unusual combinations used for service delivery in the State. Also, environmental regulations continue to change and collection methods must adapt. For example, electronics will be banned from landfills starting in 2012, which will demand a different collection method.

Since we are projecting an increase in this contract for the same service that is equal to a half cent tax increase, the City needs to take a close look at the methods used to provide these services. Keep in mind the incremental difference per cart between what we are doing now and going with an automated truck and scheduled bulky is \$.39 per cart per month, plus the increase in fuel cost associated with the current method. This starts to multiply even if you are "just" adding an average of 100 units per month, (which does not include City initiated annexations). Using automated equipment and scheduling more services rather than running fixed routes can save money and the City must seriously consider these changes if it is to continue a high level and great variety of residential solid waste services.

We do recommend in the budget a fee and a scheduling mandate for what staff refers to as "monster" piles. These are piles that generally occur when a landlord just cleans out a house abandoned by a

tenant and throws it to the curb. There is no reason these people should not be held accountable for this. The key will be defining a "monster" pile so that it does not impact household garbage that is somewhat larger than normal.

We also recommend the City start mandating the scheduling of its pick-up of appliances and other metals, but continue free pick-up. With high gas prices, the City is wasting money running trucks up and down streets looking for these. An analysis of Call Center requests demonstrates that most of our citizens are already calling in these requests as they are moving in from other locations where it is required. When they call in, many are amazed we pick up appliances and other metals for free.

SPEEDWAY AREA INFRASTRUCTURE

Details of the projects to be constructed as a result of the building of the new drag way and the improvements to Lowe's Motor Speedway were not approved in time for budget development. It appears the associated capital projects will be noise abatement at the drag way, the improvements to Bruton Smith Boulevard (including constructing a new route for part of the street), pedestrian bridges or overpasses impacting Concord Parkway and Morehead, and the extension of George Liles Parkway. The route of the new section of Bruton Smith Boulevard and the phasing of this entire project and the construction of the pedestrian improvements have all yet to be determined. The final agreement with Speedway Motorsports, Inc and the impact on this budget and those in the future is yet to be decided.

City and County elected officials have discussed pursuing a half percent sales tax to help fund some of these improvements as well as future transit investments. This will require state legislation. Since it is not known if this will take place in 2008 or not, it is also not known if these improvements will impact the FY 2009-2010 budget. As a result, we have not recommended the appropriation of any funds. If funds are needed during the new fiscal year we will likely recommend they be appropriated out of capital reserves.

CUSTOMER SERVICE AND CITIZEN COMMUNICATIONS

The City of Concord is a service organization and is accountable to its customers to provide quality service at an affordable price. This is no different from a private sector company except that many of our services can only be obtained through the City. Our coworkers are constantly reminded of this through our Mission Statement and Core values, our "Eyes and Ears" program, our Productivity Improvement Team (PIT Crew) and through training.

This year we renewed our customer service focus through a new effort. A customer service design team was selected to involve coworkers from each department who are leaders and who practice good customer service skills on a day-to-day basis. The City employed an outside facilitator who helped this group design a coordinated effort impacting all departments that includes recognition and incentive tools. This group has just completed training introducing their customer service concepts to all coworkers and will be moving forward to customize training to fit each department's needs.

The branding process has been completed. The new brand is in use and we will continue to expand its visibility as vehicles, supplies and other items that identify the City are replaced.

In conjunction with the branding efforts, a website redesign has taken place. Our population is increasingly dependent upon the website for information, paying bills and registration for services. We must have a user- friendly site that is easy to access. This redesign will be implemented by the beginning of the fiscal year.

Citizen communications will continue to be varied. Direct mailings such as the "City Circular" newsletter, newspaper placements, the electronic newsletter, the City's website, news releases, television, radio and other outlets will be used as citizens get their news from different media and most do not have the time to conduct lengthy searches for information. Staff is also preparing for the bi-annual customer service survey to be conducted in FY 2008-2009.

The City continues its partnership with the school system by offering various opportunities to learn about City services. The City's Civic Education program involving 3rd grade students attending participating elementary schools continues to expand. One of the best ways to teach the parents about local government is through their children. Also, the highly successful Youth Council will continue this year. Concord 101 and the Public Safety Academy continue to be very successful and well received by participants. These programs give residents an opportunity to learn more about their municipal government and to provide feedback on important local needs and issues. Funds are budgeted to continue these programs in the new fiscal year.

The Customer Care Center continues to be essential in providing a human contact for citizens with service needs. The Center handled 145,392 calls from 01/01/07 - 12/31/07 for an average of 12,116 Automated Call Distributor (ACD) calls per month. This is an increase of an average of 56 calls per month and 665 per year.

We are using the information from the Call Center to measure how well and how fast we are responding to calls for service against set response goals. This is another excellent measure departments are using to improve efficiency.

EXTERNAL AGENCY FUNDING

For FY 2008-09, external agencies requested \$298,400 from the City of Concord. This compares to the \$137,000 appropriated for such purposes in FY 2007-08. These agencies play an important role in ensuring a high quality of life in our community and, in some cases, providing a safety net for those in need. However, Concord must focus on its core mission of providing municipal services. While many of the services these agencies provide are vital, they are not municipal in nature in North Carolina. Community Development Block Grant funds can be used for human services, but they are limited to a certain percentage of the grant. CDBG funds have dwindled over the past years and the funds that are available are largely targeted to housing programs.

The recommendations include \$96,300 out of the \$145,300 requested from the General Fund and \$43,000 out of the \$153,100 requested in Community Development Block Grant monies. Because of budget constraints, most of the external agency funding recommendations fall below the amount requested. The individual agency funding recommendations are included within the budget of their associated functional areas as directed by Council.

CONCLUSION

The FY 2008-09 budget proposal operationalizes the goals for the City of Concord established by the Mayor and City Council. Most of the services, program and facility needs prioritized in the City Council Goals Statement were addressed. In addition, basic services have been maintained.

While this budget is proposed by the City Manager, it is neither final nor is it necessarily a reflection of what will be approved by the City Council. The Mayor and City Council will review these recommendations to arrive at what it considers the proper expenditure of the available revenues for the upcoming year.

Respectfully submitted,



W. Brian Hiatt
City Manager